

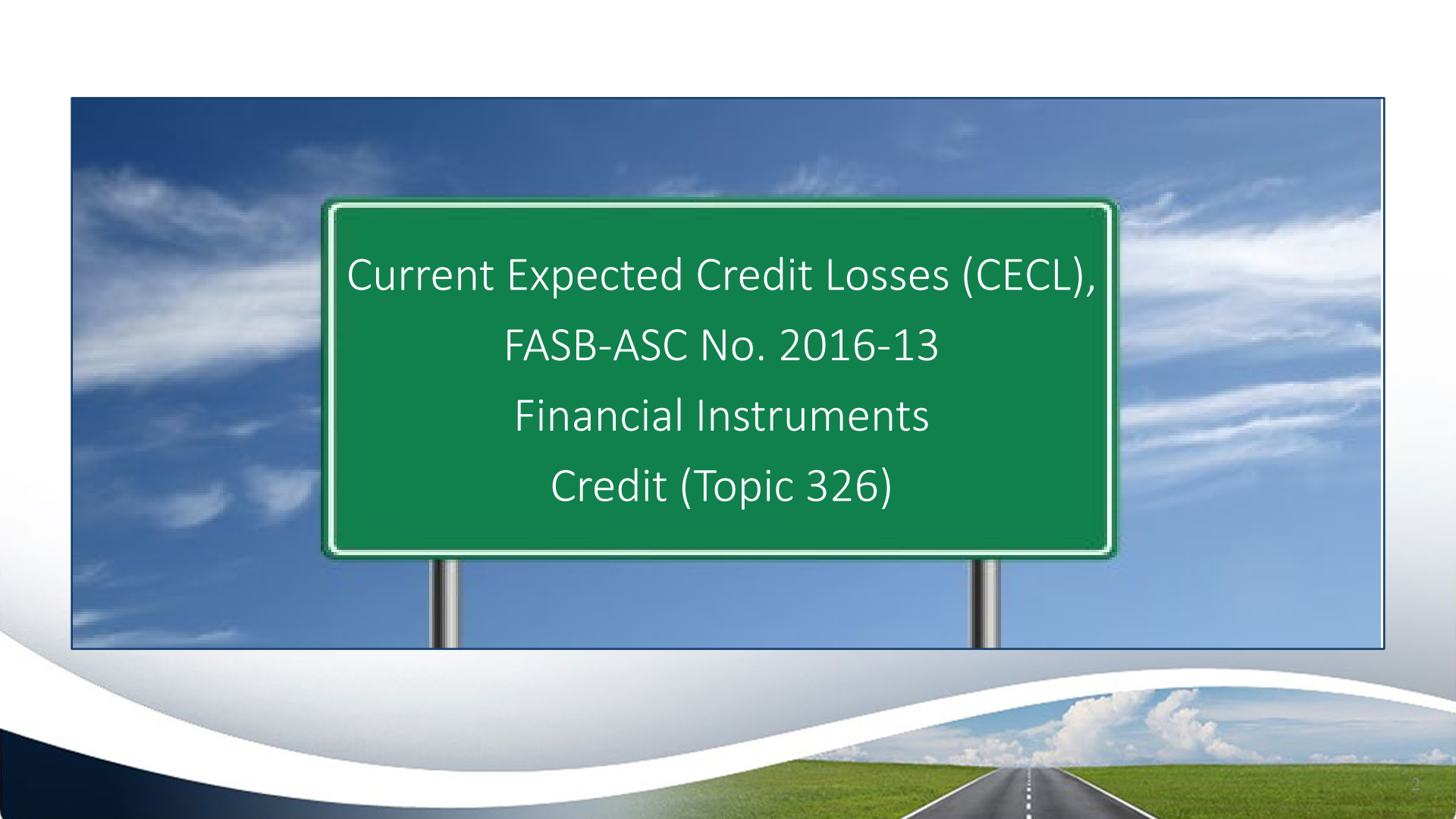


# The Road to CECL

## Directions to Current Expected Credit Losses Methodology

2022 NACUSAC Conference  
June 16, 2022: 11am-12pm

Presenter: Mike Richards, CPA – Richards & Associates, CPAs



Current Expected Credit Losses (CECL),  
FASB-ASC No. 2016-13  
Financial Instruments  
Credit (Topic 326)

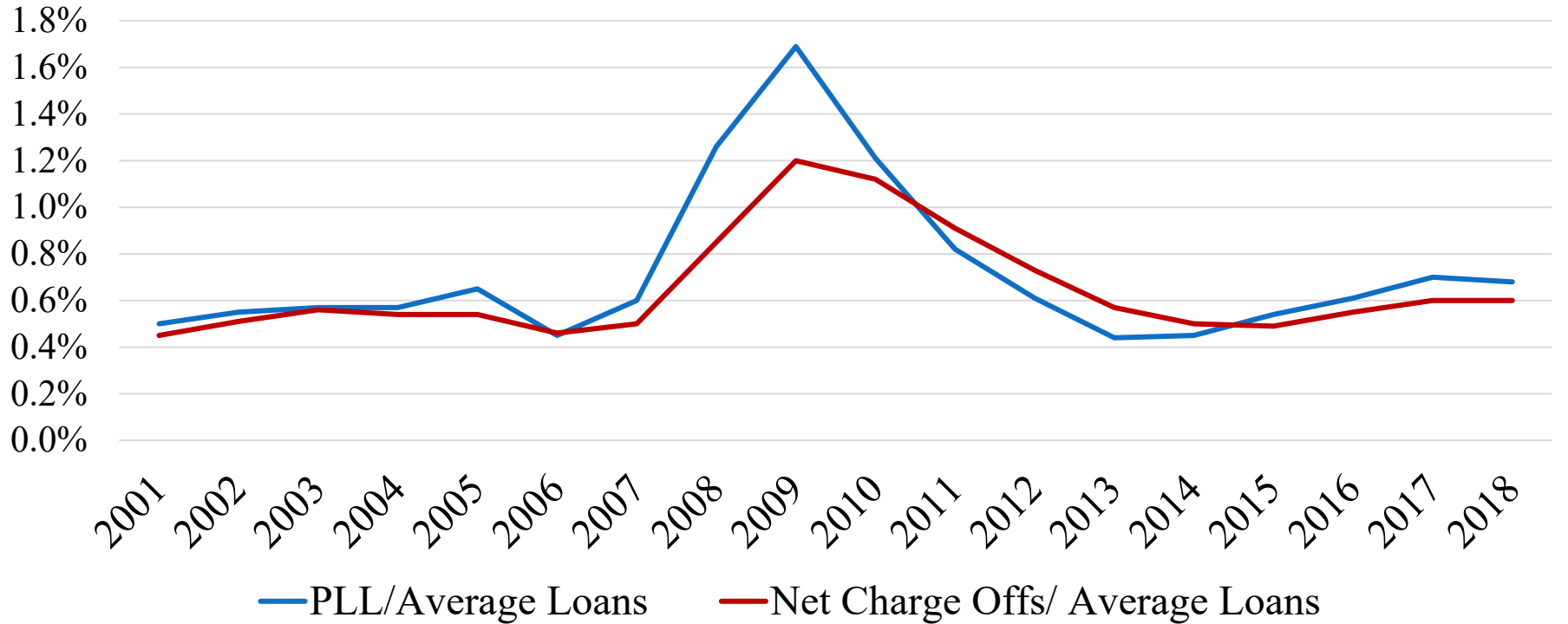


Looking back...

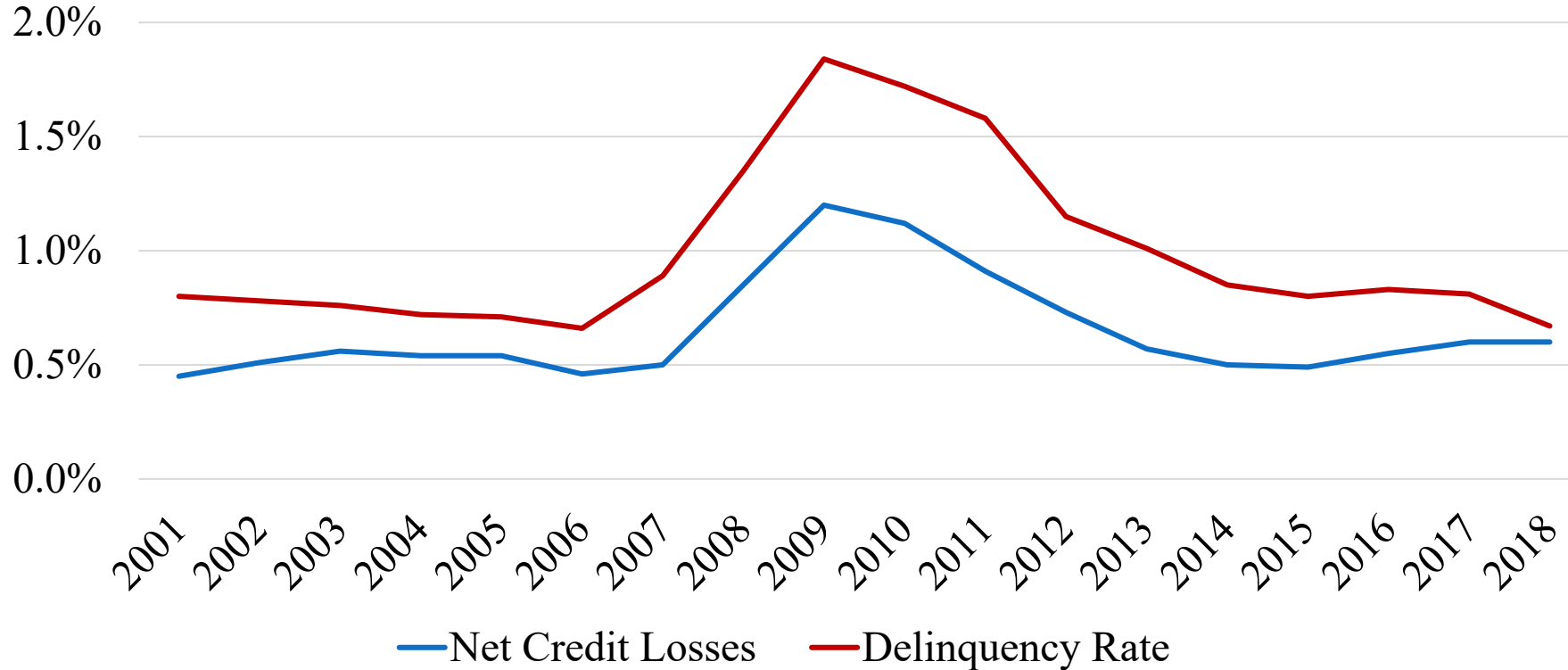
*Those who don't know history are doomed to repeat it.*

-- Edmund Burke

# Comparison of Provision for Loan Losses/Net Credit Losses



# Comparison of Delinquency Ratio to Net Credit Losses



# How to Get There



- Select your model and begin staff training
- Understanding and formalizing Qualitative Factors
- Close out Regular Reserve account and transfer the balance to Undivided Earnings
- Prepare a response for regulatory inquiries

# Recommended Models

- **Weighted Average Remaining Maturity (WARM)**- is an ideal methodology for most credit unions because it leverages your historical Call Report data and portfolio characteristics to calculate the Allowance for Credit Loss under CECL.
- **SCALE** - is a simple, spreadsheet-based method developed by the Federal Reserve to assist smaller community banks in calculating their CECL compliant allowances for credit losses (ACLs) using proxy expected lifetime loss rates.
- **CECL Allowance Loss Model (CALM)** – is the NCUA version of the SCALE model using proxy information specifically from the Credit Union Industry. Pending approval from the Financial Accounting Standards Board.

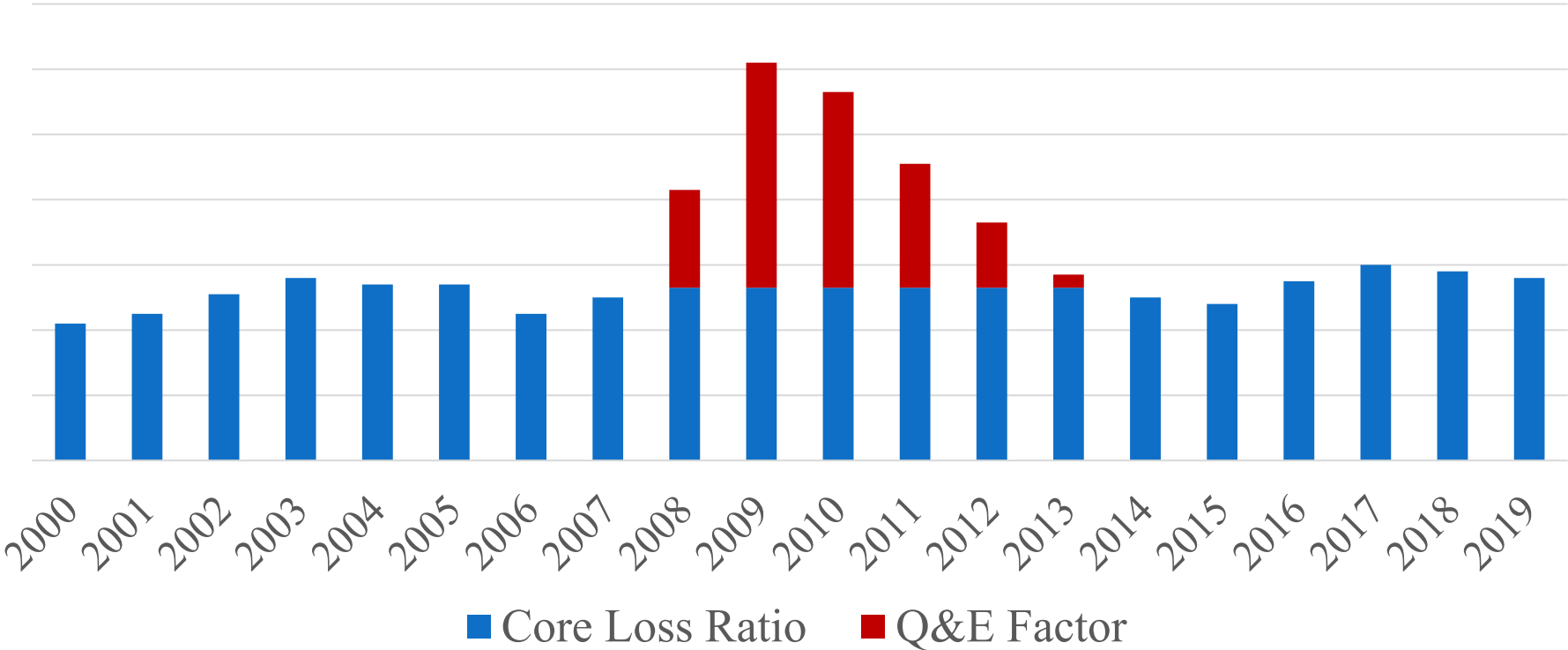
# The Great Recession

- Unemployment rate peaked at 10%
- Many unemployed for 27 weeks or more
- Gross Domestic Product (GDP) fell 4.3%
- Over 230,000 U.S. businesses closed
- More than 450 banks & credit unions failed
- Over 16 million homes foreclosed in the U.S.

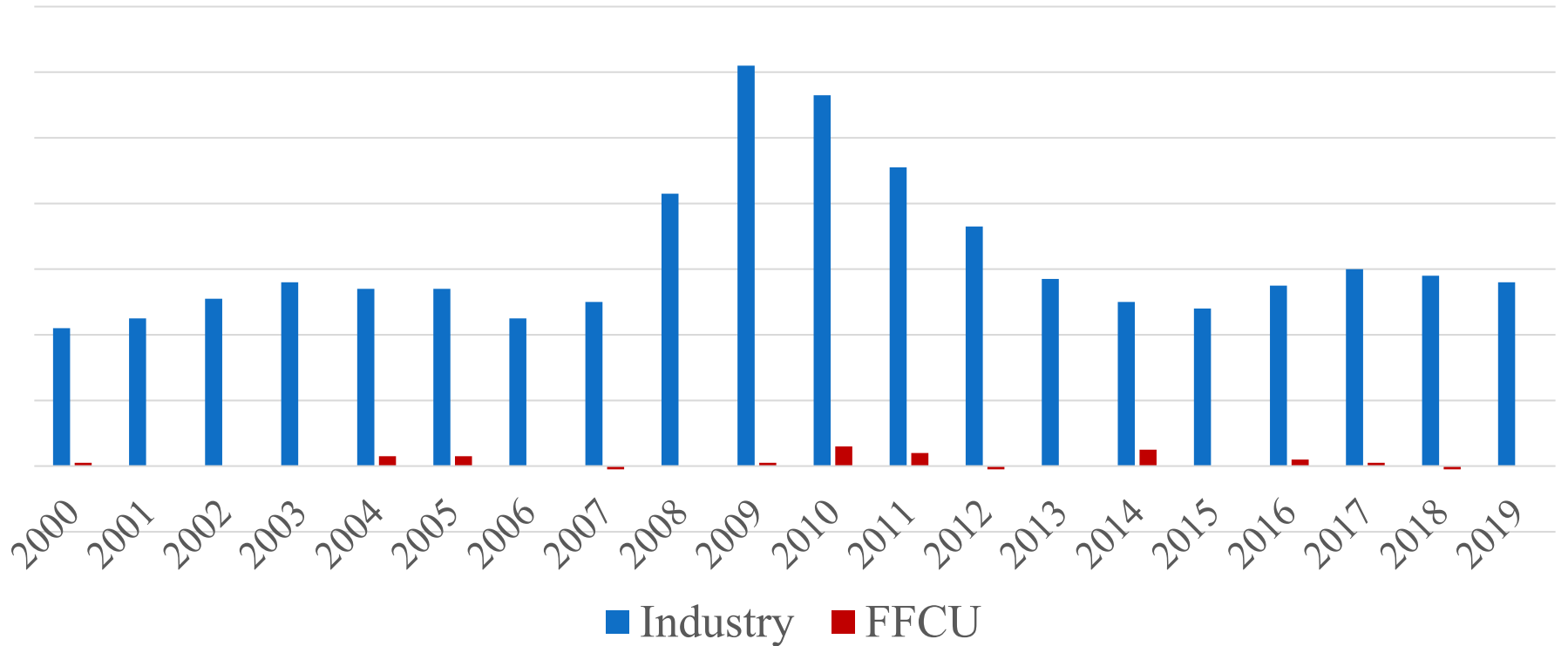




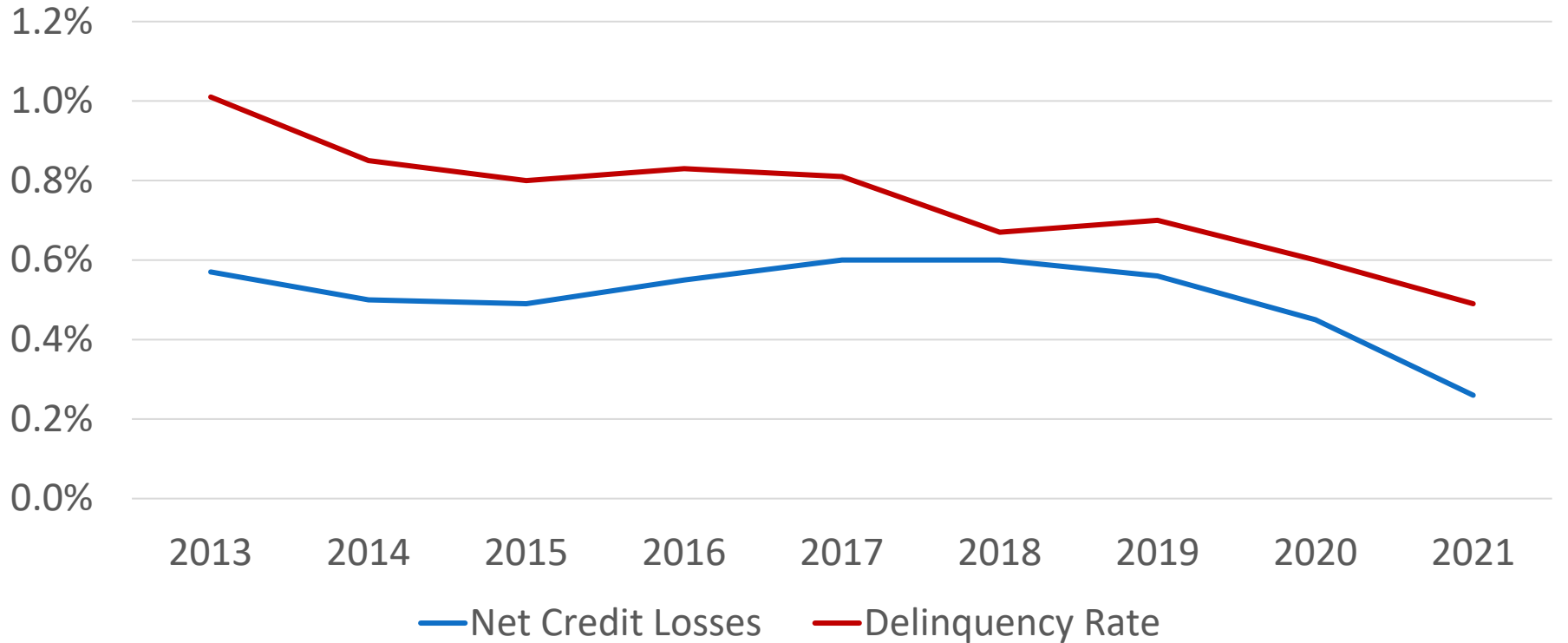
# Credit Union Industry Credit Losses/Average Loans



# A Firefighters CU Compared to Industry Average Credit Losses/Average Loans



# Comparison Delinquency to Net Credit Losses



# Risks Ahead



- Is COVID pandemic over?
- What to expect in post-pandemic environment
- The effect of war in Eastern Europe
- Rising rate of inflation
- Rising interest rates

# Regulator's Expectations

- Can be done on a worksheet
- Perfection not expected on Day One may be fine tuned throughout 2023.
- Calculation of ACL can be done quarterly
- A high degree of management judgement still required
- First public disclosure will be on the March 31, 2023 Call Report

EXIT

CECL

March 31, 2023

## About the Presenter

### **Michael E. Richards, CPA**

**Mike Richards** has held the position of CEO of Richards & Associates, CPAs since 1978. He joined the firm in 1973 after earning a bachelor's degree in business administration from the California State University at Los Angeles and becoming a Certified Public Accountant. In addition to introducing many new services, he is responsible for quality control of all professional services offered by the firm.

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